



2007 FARM BILL

Indiana's View



THE 2007 FARM BILL – INDIANA’S VIEW

Indiana’s food and agriculture industries, its rural communities and many of its citizens are directly affected by policies set forth in the Federal Farm Bill. As debate continues over the 2007 Farm Bill, Indiana is well-positioned to bring broad-based benefits to the State through this legislative process.

Clearly, there will be many competing interests throughout this Farm Bill process, including different views on program structure and priorities but also for funding resources. The national fiscal situation is admittedly not what it was during the crafting of the 2002 Farm Bill, and hard choices will have to be made by Congressional leaders on key priorities for this Bill. The Daniels Administration encourages lawmakers to consider how new and different market dynamics, emerging issues such as energy and other opportunities for agriculture should be balanced with an appropriate safety net for the industry. It is imperative that we all look at ways to properly promote and support emerging areas in food and agriculture while ensuring fiscal responsibility to taxpayers.

The following proposals are especially important to the State of Indiana and are consistent with key initiatives the Daniels Administration has introduced since taking office. The Administration intends to work closely with its Congressional delegation, other members of the Congressional Agriculture Committees and key industry partners to ensure inclusion of these initiatives.

KEY PROPOSALS

Nutrition

Indiana proposes:

A streamlining and modernization of its welfare program delivery system, including the Food Stamp program. Indiana is taking major steps to modernize its Family and Social Services Administration (FSSA) and its delivery of its nutrition and feeding programs. FSSA will contract with IBM to modernize the state’s process for determining eligibility for benefits, and state employees will continue to make final eligibility determinations. This flexibility is intended to address previous high error rates, inconvenience and also fraud and corruption and ultimately save taxpayers about \$1 billion and deliver benefits more effectively.

Bioenergy/Rural Development

Indiana proposes:

An expansion of the existing Renewable Energy Systems and Energy Efficiency Improvements (9006) program to support self-sustaining energy development in small, rural communities. This enhancement would allow for the replication of Indiana’s inaugural BioTown, USA project (based in Reynolds, IN) – a community where all energy needs are met through renewable resources. The initiative demonstrates the feasibility of existing and future technologies for rural electrification and also provides significant economic development opportunities for this rural community.

Eligibility criteria for the existing 9006 program should be expanded so that private investors and municipalities (separately or in partnership), state agriculture and energy agencies, non-profit organizations and other similar institutions can access the loan and grant funding. Also, biomass, waste energy streams and other dedicated energy crops should be considered as qualifying energy sources. The program also should be modified to include a combination of guaranteed loan and cost share funding to support replication of the BioTown project, including:

- Technology investments;
- Wastewater treatment facility investment; and
- Environmental quality confirmations, among others.

The U.S. Department of Agriculture (USDA) Farm Bill proposal to increase the loan part of this program to over \$2 billion to fund cellulosic ethanol programs and other next generation technologies is a step in the right direction. Also, funding the grant piece of the program at \$500 million will assist agricultural producers in managing waste streams and provide for useful energy.

Forestry

Indiana proposes:

Working with other Midwestern States to encourage a regional Foresters' pilot initiative that would focus on restoration of Midwest Oak forests. This could include a Conservation Reserve Program provision that has an oak planting component. There is a steady decline of oak species in natural forests from Missouri to Maryland and south into Georgia due to poor regeneration and cutting practices. The decline of oak species is the largest environmental concern shared by the forestry and wildlife communities. This pilot program will provide cost share incentives to implement a cutting or regeneration practice or hire professional foresters to assist in the restoration.

Conservation

Indiana proposes:

Added emphasis on animal agriculture be placed in the Conservation Innovation Grant program to assist with unique conservation practices that support expansion of livestock operations. We would also stress the importance of ensuring there is adequate funding in this area. Growth in animal agriculture requires all of us in agriculture to be ever mindful of protecting our natural resources. Using existing conservation programs and funds to support unique technologies and management practices for livestock producers will help with this effort. Our Administration will continue to find creative ways we can fund such technologies such as gasification/anaerobic digester installation.

Unique funding through the Conservation Innovation Grants can support dynamic models such as revolving funds allocated to community projects for byproduct gasification/digestion. Backlogs of Comprehensive Nutrient Management Practices (CNMPs), Conservation Plans and Environmental Assessments could be alleviated by utilizing non-traditional partners, such as cooperatives and manure applicators. Creative service models must be developed as we consider new technologies and higher performance standards.

IMPORTANT CONSIDERATIONS

There will be significant debate and discussion on many other aspects and programs of the Farm Bill. Some of these that the Daniels Administration would like to see fully explored and developed include the following.

Commodity Programs

Indiana supports:

Allowing full planting flexibility of fruits and vegetables on program base acres. This provision will give all producers true planting flexibility and the ability to grow what is in their best economic interest. It will all ensure that our direct farm payments are consistent with World Trade Organization rules. In Indiana, it will also allow our traditional grains and oilseed producers to consider diversification opportunities to enhance their economic returns. USDA included this in their 2007 Farm Bill proposal.

At a minimum, the 2007 Farm Bill should include the Farm Flex legislation supported by much of Indiana's Congressional delegations which allows for acre-for-acre reductions of base program payments if producers plant fruits and vegetables for processing.

An examination of a modified safety net structure for agricultural producers. Incremental shifts and corresponding payment reductions may be necessary due to World Trade Organization commitments and/or new priorities in areas such as renewable energy, conservation and/or rural development. A more market-oriented and more predictable payment structure should be considered including proposals to implement revenue-based payments.

Conservation

Indiana supports:

The continuation of the Conservation Reserve Enhancement Program (CREP) and would encourage USDA to show flexibility in this program for states to incorporate conservation initiatives to support biomass production, hardwood management and livestock expansion.

Indiana signed its first CREP agreement with USDA last year and has a current budget proposal increase pending to enhance the funding Indiana could provide in subsequent years to leverage with USDA resources. This program generates an average 5:1 funding return for every state dollar spent and focuses not on pulling acreage out of production but on making our productive farmland even more so by implementing good conservation practices.

Continued improvements to the conservation program delivery system. The current overlap in conservation programs between the Farm Service Agency and the Natural Resources Conservation Service along with the role of the State Soil and Water Conservation Districts and the Division of Soil Conservation is problematic. Indiana leads most states in delivery efficiency because of the efforts in recent years to streamline the work of these different partners. Indiana supports more flexibility and opportunities for partnerships between federal and state agencies to ensure landowners and producers receive the best possible service.

Conservation delivery models such as working with traditional service providers, manure applicators, cooperatives and seed providers could improve efficiencies as well. Flexible funding to leverage these current tools would be a wise investment for an improved delivery system. Additionally, access to technical data and GIS information is critical for these potential partners. Producers and landowners must have access to their own data to alleviate the strain on current federal, state and local staff.

Trade

Indiana supports:

Increasing funding for the Foreign Market Development program and the Market Access Program. Developing export markets for U.S. agricultural products is a very complex and long process. Resources are needed to ensure this process is successful.

Credit and Finance

Indiana supports:

Efforts to address the impact on land values from Section 1031 of the U.S. Internal Revenue tax code and would recommend the creation of a USDA commission or study group to consider possible solutions. USDA has proposed to eliminate all commodity program payments for newly purchased land benefiting from such an exchange. While this approach may be suited for a Farm Bill, a longer-term, more corrective action might be needed to reform this piece of the tax code to allow proceeds from real property sales to be invested in an agribusiness enterprise. The change could be an effective tool in providing value-added entities with needed capital investment. This also could serve to benefit beginning farmers over the longer-term as high land prices remain one of the largest capital barriers to entry in production agriculture.

Rural Development

Indiana supports:

Re-Inclusion in the 2007 Farm Bill of the Rural Strategic Investment Program (RSIP) passed in the 2002 Farm Bill Rural Development Title, but never funded. This program also should be updated to:

- Redirect the financial focus of the Rural Development Title from grants, loans and loan guarantees to the support of regional rural competitiveness strategies;
- Create regional collaboration for rural development investments, garnering input from a broader collection of stakeholders (jurisdictions, institutions, organizations, and firms);
- Offer preference to projects that leverage multi-source funding;
- Enhance the role of the USDA Rural Development Directors in working with states to design and implement these strategies; and
- Transition federal funding from an entitlement structure to a competitive structure.

Research

Indiana supports:

Research directed towards the next generation of alternative energy sources. Indiana is supportive of USDA's Farm Bill proposal that provides \$50 million to advance research for the

improved production of renewable fuels. Indiana is well-situated to house a large-scale pilot facility to test various technologies for the harvesting, processing and fermentation of biomass to ethanol. This expanded research should explore dedicated crops beyond corn and soybeans; on cellulosic ethanol commercialization; on oils such as canola, sunflower and even algae; and also the use of Dried Distiller Grain with Solubles (DDGS).

Forestry

Indiana supports:

Adding “proper management of forest resources” as one of the stated objectives of the Farm Bill – “protection of water quality, soil, and food supply” already are mentioned.

Historically, the forestry title of the Farm Bill receives considerably less attention and funding than the other major titles. This will serve to elevate the importance of this industry as a significant contributor to the ag economy.

Increased and dedicated funding to the Forest Lands Enhancement Program (FLEP) for use by State Foresters. A key strategy of Indiana’s Department of Natural Resources and the Indiana State Department of Agriculture is to promote better management of our State’s private hardwoods acres. The FLEP that was in the 2002 Farm Bill is a cost-share program with that same objective, but its funds have been consistently raided by the US Forest Service for its fire fighting efforts.

Creation of a wood-to-energy program to encourage the research and technology development to use woody biomass resources for energy production. The USDA Farm Bill proposal calls for such a program to be funded at \$150 million. There is much potential in turning what is typically waste from the forest industry into a value-added energy product. Ultimately, it could accelerate the development of cellulosic ethanol from a wider range of input sources and drive job and wealth creation in many rural areas of our State.

Bioenergy

Indiana supports:

Research funding in the 2007 Farm Bill to be made available to consider infrastructure and transport needs for the success of bioenergy development and distribution. It is critical to think longer term about the transportation infrastructure needed to carry these fuels. An examination of current petroleum pipeline structures to determine its economic viability to move biofuels should be a first priority. This will require research and development to determine basic feasibility but could also include exploration of additives to handle ethanol and biodiesel without corrosion in traditional pipelines.

INDIANA ENDORSEMENTS

Indiana has reviewed proposals put forward by other states, organizations, and institutions and has been directly involved in some of these groups’ Farm Bill policy deliberations, including the National Governors’ Association, the Midwest Governors’ Association and the National Association of State Departments of Agriculture. The following represent some ideas advanced by several of these groups that Indiana also endorses.

Commodity Programs

Targeted support for the specialty crop industry. Indiana's fruit and vegetable industry continues to grow and diversify. The USDA Farm Bill proposal includes nearly \$5 billion in funding for this important agricultural segment. The additional resources would fund specialty crop research, expand foreign market and trade opportunities and also increase purchases of fruits and vegetables in food assistance programs.

Conservation

Preserving a strong and stably funded conservation title. Priority-working-lands conservation programs should be mandatory spending via the Commodity Credit Corporation (CCC). Since many interested applicants are rejected due to over subscription of conservation programs, increased funding is warranted.

Prioritization in the Conservation Reserve Program for enrollment for lands used for forestry and biomass production for energy. The promotion and production of biomass will be significant in the future development of alternative energies. This USDA proposal would prioritize farmland planted in a biomass reserve for cellulosic energy production while still providing various environmental benefits.

Nutrition

Increased funding to promote healthful diets in schools and assist them in offering meals based on the most recent Dietary Guidelines. A portion of this funding should specifically be dedicated to increased purchases of fruits and vegetables.

Inclusion of nutrition education into the Food Stamp Program and provide funding to develop solutions to the country's obesity problem. Obesity and overweight and overweight is a significant problem in Indiana and this additional federal assistance compliments the statewide initiatives focused on nutrition and fitness.

Credit and Finance

A comprehensive review of tools available in existing farm programs to alleviate the barriers to entering production agriculture by beginning farmers. Several proposals should be considered including reduced interest rates on USDA loans, increasing the limits on those loans and perhaps even some enhanced payments.

Rural Development

Increased funding for the reconstruction and rehabilitation of all 1,283 certified Rural Critical Access Hospitals across the country - 35 of which are in Indiana. USDA's proposal includes \$1.6 billion in direct and guaranteed loans for this purpose.

The restructuring of the Rural Utilities Service (RUS) program for Broadband related grants and loans to allow more flexible funding, and to reach smaller entities that serve rural pockets.

Consolidation of multiple Rural Development programs into streamlined Business Loans, Business Grants, and Community Programs platforms. The same framework employed for the RSIP should be extended to these streamlined programs. State bodies should be given more influence in determining which projects are most effective in meeting the needs of local constituents.

Increased funding for backlogged Rural Development infrastructure programs. The USDA Farm Bill proposal provides \$500 million to reduce the backlog of water and waste disposal grants and direct loans, and Community Facilities loan and grant programs, among others.

Research

The creation of a National Institute for Food and Agriculture as a new organization within USDA to fund basic research on key agricultural issues. Supported by Purdue University, this proposal would serve to consolidate the agricultural research funding sources of USDA. This would be in addition to the base funding of the Cooperative States Research, Extension and Education Service (CSREES) that supports the research and extension work of Land Grant Universities.

Additional investment in long-term conservation research. There are numerous critical questions about the impact of production practices on water quality, air quality and wildlife habitat that need attention.

Continued research emphasis on animal health and infectious diseases. Basic and applied research as well as education in the area of emerging threats to the livestock industry is needed.

Forestry

Including more incentives for implementation of good forest practices in the existing USDA Environmental Quality Incentives Program. This program provides individual landowners with cost-share assistance for a variety of practices. Forestry should be prioritized in the program.

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